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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

ZAK FERRIS, Individually and on
Behalf of All Others Similarly
Situated,

Plaintiff,

v.

ROBINHOOD SECURITIES LLC;
ROBINHOOD FINANCIAL LLC;
and ROBINHOOD MARKETS, INC.,

Defendants.

Civil Action No.:

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

1 Plaintiff Zak Ferris (“Ferris” or “Plaintiff”), on behalf of himself and all other
2 similarly situated (the “Class,” as defined below), alleges as follows upon
3 information and belief based, *inter alia*, upon investigation conducted by Plaintiff
4 and his counsel, except as to those allegations pertaining to Plaintiff personally,
5 which are alleged upon knowledge:

6 **INTRODUCTION**

7 1. This is a class action on behalf of users of Robinhood’s trading platform
8 who were prevented from accessing their accounts or trading and continue to suffer
9 from defects in the platform which expose them to continuing exposure.

10 2. Beginning in March 2020, Robinhod’s platform went down at various
11 times, just as the securities markets were experiencing extreme volatility. Users
12 were locked out of their accounts and unable to access their funds or make trades.

13 3. Plaintiff and the Class were damaged because they were prevented from
14 using their accounts, including making planned trades or exercising options, which
15 would have been very lucrative given the market change during the outages.

16 **JURISDICTION, VENUE AND INTRADISTRICT ASSIGNMENT**

17 4. This Court has subject-matter jurisdiction over this action pursuant to
18 28 U.S.C. § 1332(d)(2). The aggregate claims of all members of the proposed class
19 exceed \$5 million, exclusive of interest and costs, and there are more than 100 class
20 members. Many members of the proposed class are citizens of a state different from
21 Defendants.

22 5. This Court is the proper venue for this action because a substantial part
23 of the events, omissions, and acts giving rise to the claims herein occurred in this
24 District where Robinhood is headquartered and where it provided the financial
25 services which are the subject of the present complaint. A substantial part of the acts
26 and omissions that gave rise to this Complaint occurred or emanated from this
27 District.
28

1 13. Robinhood is a FINRA¹-approved broker-dealer, registered with the
2 U.S. Securities and Exchange Commission (“SEC”), and is a member of the
3 Securities Investor Protection Corporation.

4 14. Per FINRA regulations, Defendants had a duty to develop, design, test,
5 and monitor their services. Defendants had a duty to create and maintain a written
6 business continuity plan identifying procedures relating to an emergency or
7 significant business disruption. Such procedures must be reasonably designed to
8 enable the member to meet its existing obligations to customers during an
9 emergency, such as an outage.

10 15. Robinhood has 10 million users.

11 16. Robinhood advertised its platform as the future of trading. Robinhood
12 promoted its online, “technology-driven” brokerage, as state of the art and
13 exceptionally fast. Robinhood touted that trades are executed exceptionally fast, that
14 it had built “low-latency trading systems used by some of the world's largest
15 financial institutions,” and that it had brought such expertise to Robinhood.
16 Robinhood said that orders will receive the best possible trade execution.
17 Robinhood further claimed that trades are made in “real time.”

18 17. However, on several occasions in March 2020, Robinhood suffered
19 systemwide, all-day outages, including during the most active trading days in market
20 history. Robinhood users were prevented from logging into their accounts and
21 performing actions on the platform, including making trades and viewing their
22 accounts.

23 18. Robinhood attributed the outages to “stress on our infrastructure —
24 which struggled with unprecedented load. That in turn led to a ‘thundering herd’ effect
25
26

27 ¹ Financial Industry Regulatory Authority (“FINRA”) is the largest independent regulator for all
28 securities firms doing business in the United States.

1 — triggering a failure of our DNS system.” After the outages were over, Robinhood
2 sent a letter to its users, which stated:

3 When it comes to your money, we know how important it is for you to
4 have answers. The outages you have experienced over the last two days
5 are not acceptable and we want to share an update on the current
6 situation.

7 Our team has spent the last two days evaluating and addressing this
8 issue. We worked as quickly as possible to restore service, but it took
9 us a while. Too long. We now understand the cause of the outage was
10 stress on our infrastructure—which struggled with unprecedented load.
That in turn led to a “thundering herd” effect—triggering a failure of
our DNS system.

11 Multiple factors contributed to the unprecedented load that ultimately
12 led to the outages. The factors included, among others, highly volatile
13 and historic market conditions; record volume; and record account
14 sign-ups.

15 Our team is continuing to work to improve the resilience of our
16 infrastructure to meet the heightened load we have been experiencing.
17 We’re simultaneously working to reduce the interdependencies in our
overall infrastructure. We’re also investing in additional redundancies
in our infrastructure.

18 After a brief outage this morning, our trading platform was stable for
19 the remainder of the day. As our engineering team works to upgrade
20 our infrastructure, we may experience additional brief outages, but
21 we’re now better positioned to more quickly resolve them.

22 We take our responsibility to you and your money seriously. We
23 recognize that many of you have questions, and we’re working to
24 respond to them as quickly as possible.

25 Many of you depend on Robinhood for your investments, and we’re
26 personally committed to doing all we can to operate a stable service
that’s available when you need it the most.

27 —Baiju and Vlad, Co-Founders and Co-CEOs
28

1 parties to the adjudications or substantially impair or impede their ability to protect
2 their interests; and (6) a class action is superior to all other available methods for the
3 fair and efficient adjudication of this controversy since joinder of all members is
4 impracticable. Furthermore, as the damages suffered by individual Class members
5 may be relatively small, the expense and burden of individual litigation make it
6 impossible for members of the Class to individually redress the wrongs done to them.
7 There will be no difficulty in the management of this action as a class action.

8 **CAUSES OF ACTION**

9 **FIRST CAUSE OF ACTION – FRAUD AND DECEIT**

10 23. Plaintiff hereby incorporates all of the foregoing paragraphs.

11 24. Defendants' conduct constituted a fraud against Plaintiff and the
12 members of the Class. Defendants, directly or through their agents and employees,
13 made false representations, concealments, and nondisclosures to Plaintiff and the
14 members of the Class about the services, trading capabilities, and access to the
15 Defendants' platform, with the intent to defraud. Defendant intended to defraud
16 Plaintiff and the Class by concealing that the service was subject to outages where
17 users would not be able to access their accounts, or make trades, and the fact that
18 the service would fail or become unavailable on high trading volume.

19 25. Plaintiff and the Class justifiably relied on the misrepresented facts and
20 were unaware of the concealed and/or suppressed facts and would not have acted as
21 they did if they had known of the true concealed and/or suppressed facts. As a result,
22 Plaintiff and the members of the Class sustained damages.

23 26. Defendants, directly and indirectly, made substantially similar
24 misrepresentations and material omissions to Plaintiff and each member of the Class.

25 27. On information and belief, Defendants were aware of the fraudulent
26 nature of the statements and omissions as similar outages had occurred in the past.
27
28

1 28. As a result of Defendants' wrongful conduct, Plaintiff and the members
2 of the Class have suffered and continue to suffer economic losses and other general
3 and specific damages.

4 29. Defendants' acts were done maliciously, oppressively, and with intent
5 to defraud, and Plaintiff and the Class are entitled to punitive and exemplary
6 damages in an amount to be shown according to proof at the time of trial.

7 **SECOND CAUSE OF ACTION – VIOLATION OF CLRA**

8 30. Plaintiff incorporates by reference each and every allegation contained
9 above.

10 31. The acts and practices of Defendants as described above were intended
11 to deceive Plaintiff and the Class as described herein and have resulted in harm to
12 Plaintiff and the Class.

13 32. The actions violated and continue to violate the California Consumer
14 Legal Remedies Act (CLRA) in at least the following aspects:

15 a. In violation of Section 1770(a)(5) of the CLRA, Defendants' acts and
16 practices constitute representations that the services have characteristics, uses or
17 benefits, which they do not.

18 b. In violation of Section 1770(a)(7) of the CLRA, Defendants' acts and
19 practices constitute representations that the services are of a particular quality, which
20 they are not.

21 33. By committing the acts alleged above, Defendants have violated the
22 CLRA.

23 34. Pursuant to California Civil Code § 1780(a) Plaintiff and the Class are
24 entitled to an order enjoining the above-described wrongful acts and practices of
25 Defendants, restitution, an order awarding the payment of costs and attorneys' fees,
26 and any other relief deemed appropriate and proper by the Court under California
27 Civil Code § 1780.

THIRD CAUSE OF ACTION – DECLARATORY RELIEF

35. Plaintiff incorporates by reference each and every allegation contained above

36. An actual controversy has arisen and now exists between Plaintiff and the Defendants. As described above, Plaintiff contends that Defendants' conduct violated certain rights and duties.

37. A judicial determination of these issues and of the respective rights and duties of Plaintiff and Defendants is necessary and appropriate at this time under the circumstances, including, but not limited to, a determination of any question of interpretation and validity of the written agreements between the parties and the Defendants attempts to limit liability.

38. Plaintiff seeks a judicial determination of the duties Defendants owe to their users, their duty to operate reliable services, avoid outages, and Defendants' duties during emergencies or when outages may occur.

39. Plaintiff seeks a judicial determination of the rights of Plaintiff and the class under the circumstance alleged herein.

FOURTH CAUSE OF ACTION – VIOLATION OF UCL

40. Plaintiff incorporates by reference each of the preceding paragraphs as if fully set forth herein.

41. California's Unfair Competition Law (Cal. Bus. & Prof. Code § 17200, *et seq.*) is designed to protect consumers from unlawful, unfair, or fraudulent business acts or practices, including the use of any deception, fraud, false pretense, misrepresentation, or the concealment, suppression, or omission of any material fact.

42. Defendant has engaged, and continues to engage, in unfair business practices with regard to its services, as alleged herein. Defendants' conduct is not outweighed by any countervailing benefits to consumers.

43. Defendants' conduct is also fraudulent. Defendants represented that

1 their services were exceptionally fast and that trades were made in real-time, while
2 also concealing the real risk that the service has and would suffer outages that
3 prevent users from making trades and accessing their accounts.

4 44. Defendants' conduct and the harm it caused, and continues to cause, is
5 not reasonably avoidable by Plaintiff and the Class members. Defendants knew or
6 had reason to know that Plaintiff and the Class members could not have reasonably
7 known or discovered the existence of the service problems and outages before the
8 outages took place.

9 45. Had Plaintiff and the Class members known that the Defendants'
10 platform suffered outages where users could not access their accounts or make
11 trades, they would not have used the service.

12 46. Defendant's conduct is also unlawful, and violates FINRA rules
13 requiring them to have emergency plans, to make required disclosures to consumers,
14 and not to make false and misleading advertising, as alleged herein.

15 47. Defendants' unfair, fraudulent, and unlawful business practices directly
16 and proximately caused damage to Plaintiff and the Class members.

17 48. Pursuant to Cal. Bus. & Prof. Code § 17203, Plaintiff seeks an order:
18 (a) requiring Defendants to cease the deceptive and unfair business practices alleged
19 herein; (b) requiring Defendant to restore to Plaintiff and the Class members any
20 money acquired by means of the deceptive and unfair business practices
21 (restitution); and (c) awarding reasonable costs and attorneys' fees pursuant to Cal.
22 Civ. Code § 1021.5.

23 **FIFTH CAUSE OF ACTION -- NEGLIGENCE**

24 49. Plaintiff incorporates by reference each of the preceding paragraphs as
25 if fully set forth herein.

26 50. Defendants knew or should have known of the likelihood of system-
27 wide outages, particularly on days in which trading would high.

1 51. Defendants had a duty to develop, design, test, and monitor their
2 services. Defendants had a duty to create and maintain a written business continuity
3 plan identifying procedures relating to an emergency or significant business
4 disruption. Such procedures must be reasonably designed to enable the member to
5 meet its existing obligations to customers. Defendants failed to create an adequate
6 plan that satisfied the minimum requirements established by FINRA.

7 52. Defendants had a duty to, inter alia, prevent outages, and prevent
8 reasonably foreseeable harm that could have resulted from the outages.

9 53. Defendants breached their duties by failing to create an adequate
10 emergency plan, failing to prevent the outages, failing to notify Plaintiff and the
11 Class of the possibility of the outages, and failing to act on the information and
12 warnings from prior outages.

13 54. Defendants' individual and collective acts and omissions were actual,
14 substantial causes of Plaintiff's injuries and damages described herein because
15 Plaintiff's injuries would not have happened, but for Defendants' breaches.

16 55. Defendants' conduct amounted to gross negligence where Defendants
17 breached their duties by failing to create an adequate emergency plan, failing to
18 prevent the outages, failing to notify Plaintiff and the Class of the possibility of the
19 outages, and failing to act on the information and warnings from prior outages while
20 Defendants knew, or should have known, that said failures were likely to harm to
21 users. Defendants' conduct constitutes gross negligence where the outages were a
22 result of large trading volume or for the failure to account for leap year, or both;
23 outages as a result of either incident are extreme departures from the ordinary
24 standard of care.

25 56. As a direct and proximate result of Defendants' acts and omissions,
26 Plaintiff and the Class sustained damages as set forth herein.

SIXTH CAUSE OF ACTION – BREACH OF FIDUCIARY DUTY

57. Plaintiff incorporates by reference each of the preceding paragraphs as if fully set forth herein.

58. Defendants as brokers owe a fiduciary duty to their investors, including Plaintiff and the Class. Plaintiff and the Class are customers of Defendants and they trusted Defendants to provide the services the Defendants advertised and promised.

59. The fiduciary duty arising from the relationship between Plaintiff and the Class and Defendants was breached by Defendants' failure to provide the services promised, by Defendants' failure to maintain an adequate emergency plan, and by Defendants' failure to properly disclose the risks of outages and the occurrences of past outages.

60. Defendants breached their fiduciary duties directly and proximately caused damage to Plaintiff and the Class members.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on behalf of himself and the Class, demands a jury trial and prays for judgment as follows:

A. For a declaration of the rights and duties of the parties;

B. For a declaratory judgment that Defendants' actions complained herein are violations of the laws set forth herein;

C. Preliminarily and permanently enjoining Defendants from violating their duties and the rights of Plaintiffs as alleged herein;

D. Declaring this action to be a proper class action and certifying Plaintiff as the Class Representative;

E. Awarding Plaintiff and the other members of the Class compensatory damages against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

1 F. Awarding punitive damages and restitution where available;

2 G. Awarding Plaintiff and the other members of the Class pre-judgment
3 and post-judgment interest, as well as reasonable attorneys' fees, expert witness fees,
4 and other costs and disbursements; and

5 H. Awarding Plaintiff and the other members of the Class such other and
6 further relief as the Court may deem just and proper.

7 **JURY DEMAND**

8 Plaintiff hereby demands a trial by jury.

9
10 Dated: April 14, 2020

Respectfully submitted,

11
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14 143334)

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